Statement of the
Honorable Allan Rutter
Federal Railroad Administrator
Before
The Subcommittee on Railroads
Committee on Transportation and Infrastructure

U.S. House of Representatives
March 6, 2002

Mr. Chairman and members of the Subcommittee: I am honored to be representing President Bush and Secretary of Transportation Mineta as the Administration and the Congress begin our discussions which will hopefully lead to a consensus on a new national policy on intercity passenger rail and the Federal role in support of that form of transportation.

Secretary Mineta has advocated the need for this policy since he first joined the Amtrak Reform Board of Directors last summer. He and I hope that we can determine what this Nation's transportation system needs from intercity passenger rail, how decisions will be made on where and how service is provided, how extensive a system can be afforded, and how it will be paid for.

Today, I want to help lay a foundation for the development of that policy by sharing the facts about rail passenger service as it is currently constituted. By doing so, I hope I can help the committee as it considers possible solutions by describing the nature of the problems to be solved. In this testimony, I will:

- Describe the current financial challenges facing the National Railroad Passenger Corporation, or Amtrak;
- Offer an analysis of the current rail passenger system; and
- Detail its efforts to ameliorate its fiscal condition.

One other note about nomenclature: intercity rail passenger service is the only mode of transportation that is synonymous with a corporate brand. We must be able to differentiate between the public policy issues associated with the form of transportation – intercity rail passenger service – and the financial and other challenges faced by the corporate provider of that service – Amtrak. I will try to distinguish between issues facing rail passenger service (general) and those facing Amtrak (particular).

There Is a Role for Intercity Passenger Rail Service

Amtrak service between Washington, D.C. and New York City has shown that this mode of transportation can be an irreplaceable part of a regional transportation system. Sustained double-digit growth in ridership on Amtrak's Pacific Northwest route has shown that there are other

corridors where there may be potential for passenger rail. And, as demonstrated in the aftermath of September 11th, a strong argument can be made for flexibility and redundancy in this Nation's passenger transportation system that could be provided by intercity passenger rail.

Intercity rail passenger service provides more than mobility to the Nation's transportation system. Large portions of the Northeast Corridor main line between Washington and Boston host some of the most intensively used commuter rail operations in the U.S. If intercity rail passenger services were ended in the Northeast Corridor or on the West Coast, highways and airports would suffer additional congestion in the short term at a time when drivers and travelers already face significant frustration and delays. These indirect roles in aspects of the national transportation system must also be considered as we work to formulate the new policy on intercity passenger rail.

At the same time, we must confront the realities of Amtrak's deteriorating financial condition, the challenging fundamental economics of passenger rail and the practical limits to Federal financial resources dedicated to transportation and the many worthwhile demands currently being placed upon those resources.

Amtrak Faces Financial Challenges

In fiscal year 2002, the Federal Government will provide Amtrak almost $840 million in cash to support its operations and essential capital needs, not counting $100 million that was specifically earmarked to improving the safety and security of the aging rail tunnels owned by Amtrak that provide access to New York City. Despite these funds and an additional $133 million in financial support expected from Amtrak's State partners, the Corporation has been forced to undertake a number of actions, including some that are short-sighted but necessary to continue operations through the fiscal year.

One of the actions recently announced by Amtrak is a deferral of $175 million in capital projects involving equipment refurbishment and capacity and reliability improvements. In addition, the operating budget will be reduced by $110 million through a 4 percent staff reduction, reduced advertising, delayed modernization of information technology systems, and reduced training. Together these actions will reduce the quality of Amtrak service in 2002 and succeeding years. Amtrak's management is to be commended for taking these steps on its own to conserve its cash resources, rather than asking for supplemental funding from Congress.

The adequacy of these actions to close the budget gap is dependent upon assumptions about the depth and duration of the economic downturn's impact on business and discretionary travel as well as the bottom line impact of specific actions to be implemented. Given the uncertainty in the economy and other external factors that might affect Amtrak's business plan, policy-makers in the Administration and in Congress should be prepared for the possibility of a greater cash shortfall that might require additional and more stringent measures to successfully manage the Corporation's cash resources.

Amtrak's fiscal challenges will continue into FY 2003. As the Committee is aware, Amtrak recently announced its plans to provide the statutorily-required notification to the States that,

absent a higher level of appropriations for FY 2003 (which Amtrak projects to be $1.2 billion), service on most long-distance trains will be terminated on October 1 of this year. But even these actions would not be sufficient to achieve the vision of Amtrak established by the Amtrak Reform and Accountability Act of 1997, which is of a Corporation that can provide high-quality cost-effective passenger rail service without depending upon a Federal operating subsidy. As I will discuss later, Amtrak can improve its financial performance by cutting trains and routes, but cannot break even by means of cutbacks alone.

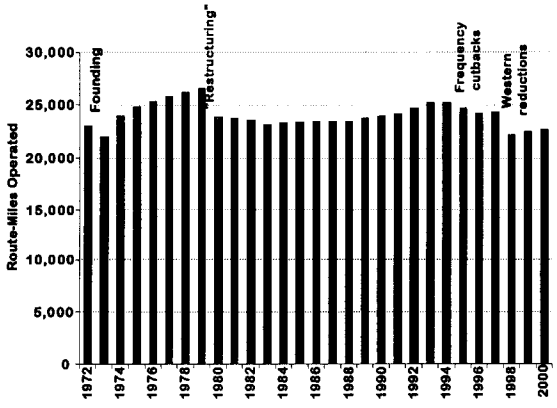
Amtrak's financial challenges will extend into the foreseeable future unless we – the Administration and the Congress – can agree on how to make intercity rail passenger service work better and within the level of fiscal support that we can afford. To provide a starting point for those discussions, I wish to provide some of the Federal Railroad Administration's (FRA) observations on the state of intercity rail passenger service today.

Intercity Rail Passenger Service Has Changed Little in the Last 30 Years

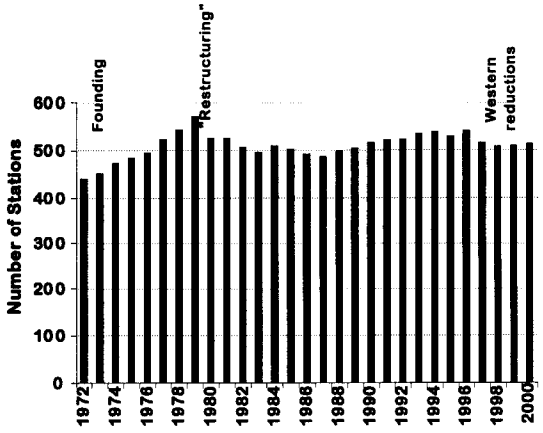
Amtrak's Network Limits Its Competitiveness

Since Amtrak's first full year of operations, the system route-mileage operated has remained in the 22,000 – 25,000 mile bracket. Even the route restructuring of the late 1970s and the elimination of two Western connections in the late 1990s made little difference in the overall scope of service. The service adjustments in the mid-1990s focused on reducing frequencies rather than shrinking the system map. Likewise, the number of stations served has hovered at about 500 for the last 30 years.

Amtrak's network size, in route miles: Essentially unchanged since 1972



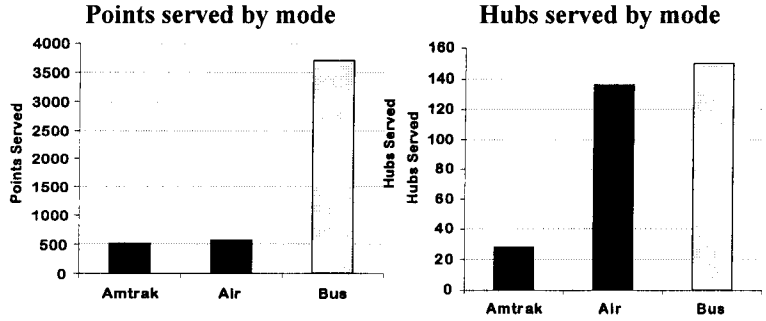
Service coverage, in stations served: Also basically unchanged



Source: Amtrak annual reports.

Currently, Amtrak serves the same number of stations as the airlines serve airports. There is a qualitative difference, however: many of Amtrak's stations serve communities too small for scheduled air service, and some important metropolitan areas (i.e. Nashville, Tennessee, Columbus, Ohio, and Phoenix, Arizona) lack Amtrak service entirely. Greyhound's bus system, with its many stops, can schedule service to many more points than either rail or air. More

important, however, is the nature of the service offered at these stations: only 25 to 30 of Amtrak's stations would be regarded as realistic transfer points between intersecting routes, while 136 airports are classified as hubs and Greyhound claims 150 major terminals.



Sources: Amtrak Annual Report, 2000; Amtrak National Timetable, route map; National Transportation Statistics 1999, table 1-2, Number of civil certificated airports; Bureau of Transportation Statistics, "Airport Activity Statistics of Certificated Air Carriers"; www.greyhound.com/company/factsheet.shtml, "3700 destinations"; www.greyhound.com/company/factsheet.shtml; "150 company-operated terminals"

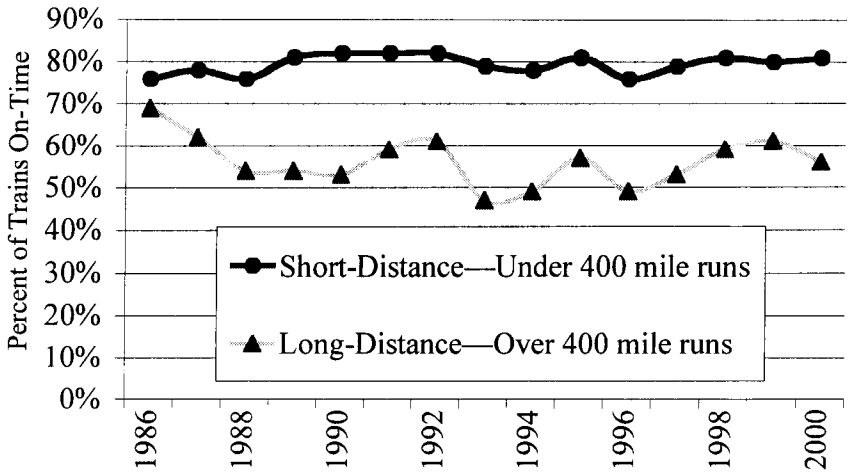
Today's passenger rail system – unlike the much more extensive system of Amtrak's predecessor railroads – is largely linear, connecting most stations to other stations on the same route. While transfers among lines are possible, transfer points are few in number, and low frequencies in most of the country undermine the practicality of changing trains. By contrast, scheduled air service in its entirety is a true network. With the highway system as ubiquitous as it is, Greyhound can maintain a network pattern as well, and the automobile can reach every corner of the 48 coterminous States.

A linear system like Amtrak's faces severe limitations on the number of city pair travel markets it can effectively serve. This fundamental constraint – totally apart from the frequency, quality, and price of the service – has significant consequences in terms of total market share. If a prospective traveler "can't get there from here" by a particular mode, that mode simply can't compete for his or her business.

Amtrak's Schedule Reliability On Much of Its System Is Poor

Amtrak's on-time performance for trains with runs under 400 miles has remained in the 80 to 90 percent bracket since the mid-1980s (with an on-time measurement tolerance of between 10 and 20 minutes). By contrast, long-distance trains (over 400 miles) – which currently generate the majority of system-wide passenger-miles – have suffered a marked decline in punctuality, from almost 70 percent in the mid-80s to about 55 percent today (with a measurement tolerance of 20 to 30 minutes). These averages mix the superior performances of selected routes (the New York–New Orleans *Crescent* had an 80 percent on-time record in FY 01) with the unreliability of others (New York–Florida *Silver Palm,* 36%; Chicago–Texas *Texas Eagle,* 25%; Washington–Chicago *Capitol Limited,* 44%). These figures do not indicate the seriousness of the lateness, which can be of many hours' duration per train.

Amtrak's On-Time Performance



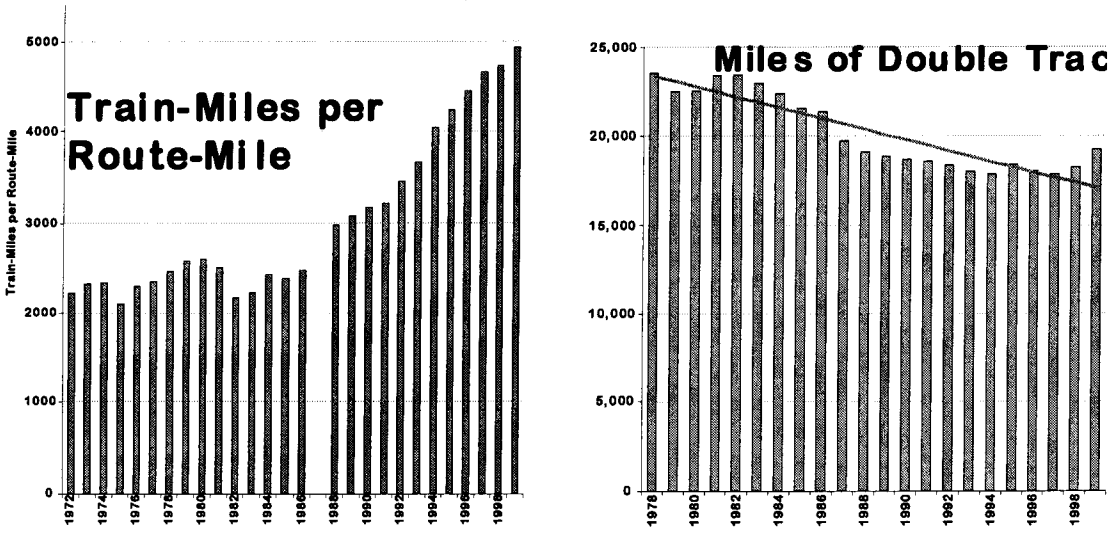
Source: Amtrak Annual Reports, 2000 and prior years

Although the airlines, too, have suffered declines in punctuality, at least before September 11th (the industry was 73 percent on time in 2000, down from 82 percent in 1997), Amtrak's combination of slowing schedules[a] and lateness on some long-distance routes has exacerbated passenger rail's inherent travel time disadvantages compared to airlines and even automobile travel.

Increasing Freight Traffic Hurts Amtrak's Performance

The reasons for Amtrak's declining on-time performance are many and complex. One obvious cause is the increasing traffic density of America's freight railroads. As shown in the following chart: train-miles per route-mile have risen by 150 percent since the 70s, while double-track route mileage operated is down by almost 20%. This is a strong indication that the intensity of use of rail infrastructure assets is at an all-time high, which is of great importance to the private sector owners of the infrastructure. But the congestion that has resulted from this increased intensity of use has affected the timeliness of both passenger and freight services. This is only one factor, but clearly an important one. Of the 40,000 hours of delay to Amtrak trains reported in FY01 through June, one-third accumulated due to interference from other trains – mainly freight, but also Amtrak and commuter runs. Other major causes of delay include "slow orders," maintenance work, equipment trouble, and trains held for passenger connections.

[a] For example, the fastest scheduled timing between New York and Chicago by rail in the mid-1950s was 15.5 hours; at Amtrak's founding, it was 17 hours; today, it is 19.6 hours, representing a 25 percent lengthening of scheduled trip times in 50 years.

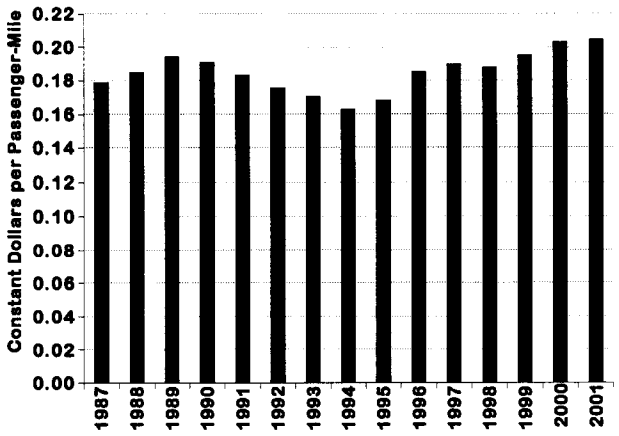


Source: Association of American Railroads, Yearbook of Railroad Facts; Analysis of Class I Railroads.

Nationwide, Amtrak Cannot Compete With Other Modes on Price

On average, today's Amtrak fares are about ten percent higher than they were in 1987 on a constant dollar basis. More to the point, since 1994, Amtrak has raised its system average fares dramatically – by about 25 percent. These Amtrak fare increases merit comparison with trends in other modes.

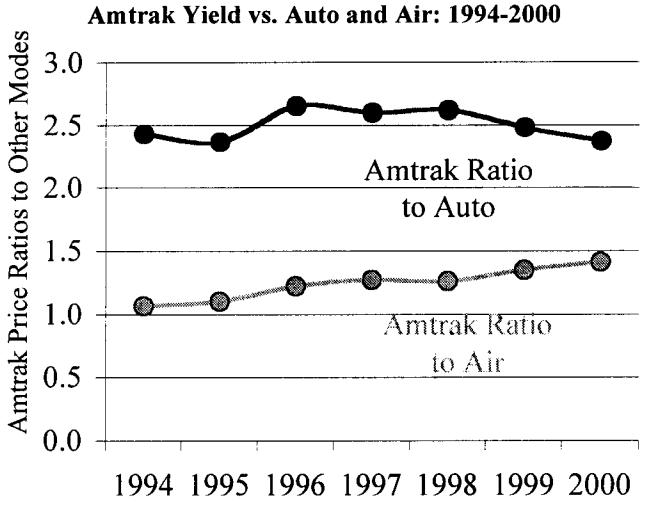
Amtrak Yield, or Revenue, per Passenger Mile: 1987-2001



Source: Passenger Transportation Revenue (in constant dollars deflated by CPI) and Passenger-Miles from Amtrak Annual Reports

FRA analysis shows that as of the end of 2000, Amtrak's per-mile fares remained almost two-and-a-half times as high as the perceived costs of driving. The rail fare increases had, in that regard, partially negated the effects of the gas price hikes in recent years. With constant dollar airfare yields declining and Amtrak fares increasing, Amtrak's average fares were approaching fifty percent higher than those of air. These fare comparisons were system averages and will

vary among markets and among service types. Still, nationwide, there was an obvious dissonance between the relatively high – and growing – fares and the declining timeliness of the service provided by Amtrak.



Sources: Amtrak Annual Reports; American Automobile Association, Your Driving Costs; FAA, Statistical Handbook of Aviation; Bureau of Transportation Statistics, National Transportation Statistics; Air Transport Association, website www.air-transport.org,

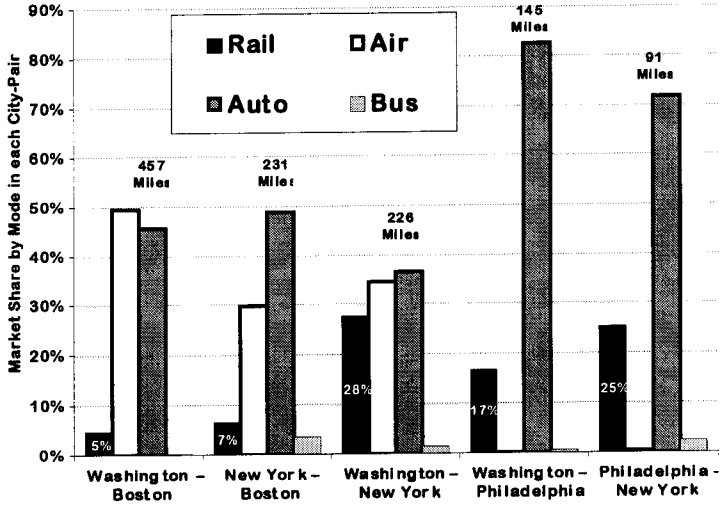
Amtrak's Competitive Posture Varies by Market

Although Amtrak's product is not available nationwide at high quality, intercity passenger trains can attract significant market shares where they provide a competitive quantity and quality of service – even at relatively high fares. The prime example, of course, is the Northeast Corridor (NEC), where FRA has estimated that Amtrak holds a seven percent share of intercity traffic by all modes in all city pairs and a substantially higher percentage of the combined air/rail trips.

In specific markets, like New York to Philadelphia and New York to Washington, rail can reach market shares of 25 percent and more of all trips and in excess of 50 percent of the combined air/rail trips where rail travel times and service can compete with those of other modes.[b] Under present circumstances – for instance, with reduced service at Reagan National Airport – those market shares can be expected to increase markedly.

[b] Market shares are based on 1993 estimates prepared for FRA's commercial feasibility study of high-speed ground transportation, the most recent study of its kind.

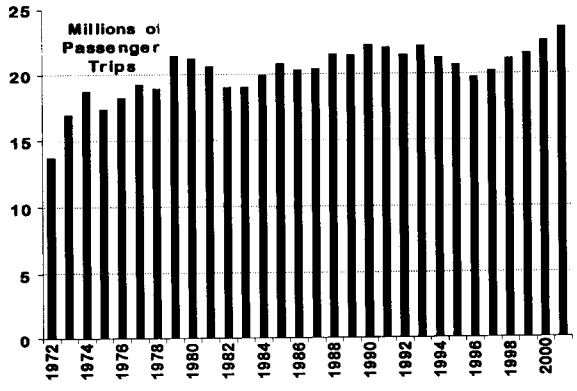
Estimated Market Share by Mode



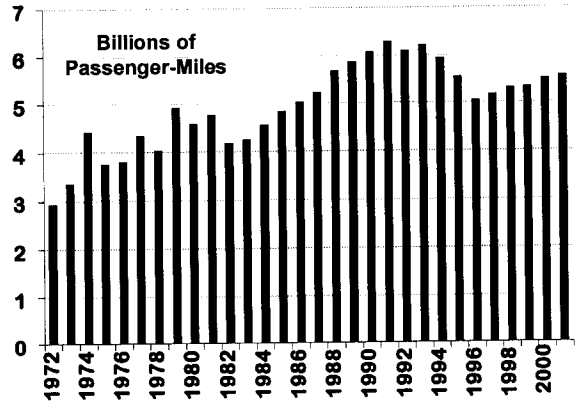
Source: Volpe National Transportation Systems Center, supporting data for the Commercial Feasibility Study based on 1993 estimated traffic levels for the various modes. No more recent study of this kind has been done.

In viewing ridership trends, some emphasize the number of passengers carried. From that viewpoint, the traffic has grown in the past four years to the highest level in corporate history: 23.5 million passenger trips. All the traffic losses of the early 1990s would seem to have been reversed. However, by treating all trips the same, regardless of distance, this measure distorts the transportation economics of the service. Another measure of traffic volume, passenger-miles, shows why. From a disastrous first full year in 1972, with three billion passenger miles, Amtrak had rebuilt its volume to a peak of over six billion passenger-miles by 1991. However, by 1996, fully one-fifth of the peak volume had been lost, due to a marked reduction in service (15 percent fewer train-miles in 1996 than in 1993) and a worsening fare differential in comparison with other modes. There has been growth since the low point in 1996, but not enough to offset the long-term decline. The Corporation today generates about 800 million fewer passenger-miles than it did at its 1991 peak and this decline occurred during a significant expansion in total passenger mobility in the U.S.

Passenger Trips



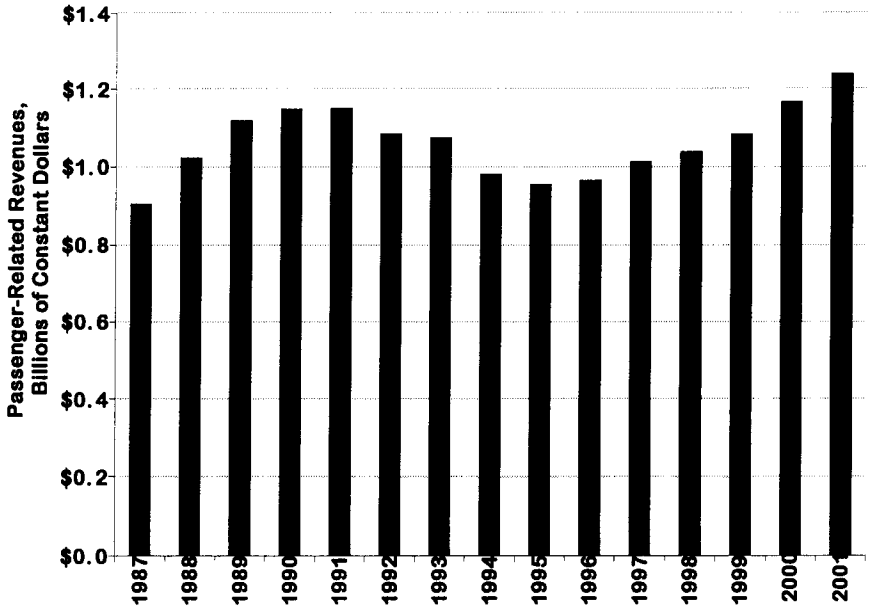
Passenger Miles



Source: Amtrak Annual Reports.

Since 1997, the slight rebound in traffic and the continuing fare increases has led to the highest passenger-related revenue levels in Amtrak's history. On a constant-dollar basis, however, passenger revenues are only eight percent above those of 1991—not a significant percentage in light of the company's increased costs. These restored revenue levels have come from a much smaller traffic base than in the early 1990s.

Amtrak Revenue: 1987-2001

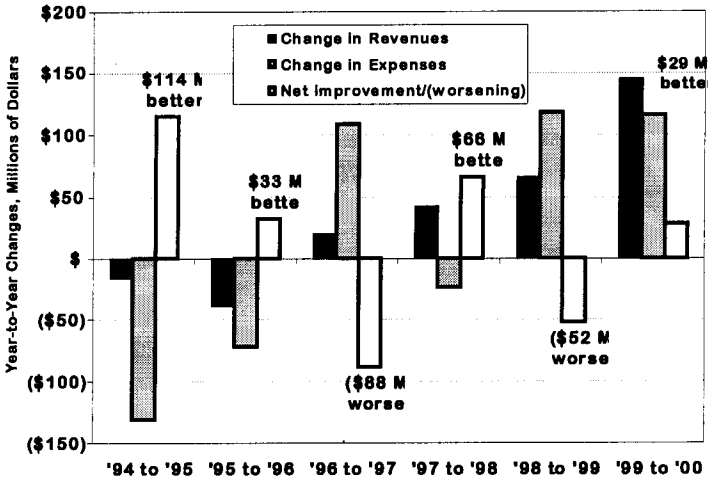


Source: Amtrak Annual Reports and detailed financial statements. Constant 2000 dollars based on GDP deflator.

Amtrak Has Been Unable To Improve its Fiscal Health

Although it has tried, Amtrak has made very little progress in improving the economics of its core[c] passenger and allied businesses since the mid-1990s. Indeed, from 1994 through 2000, the net constant-dollar reduction in the annual operating deficit for the "core" amounted to about $100 million; this is to be compared with an annual deficit in the range of $600 to $700 million during that period.

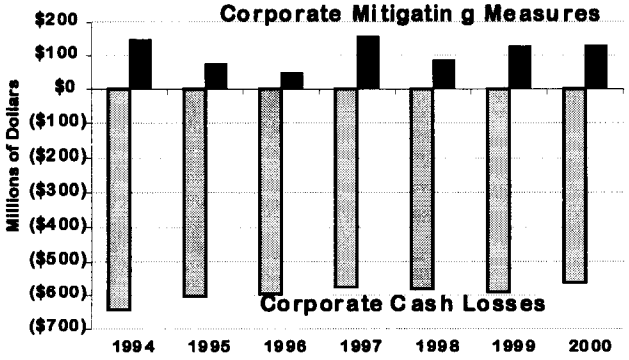
[c] This "annual operating deficit for the core" excludes all State subsidies and other Federal and State payments. All monetary amounts are constant 2000 dollars.



Source: Amtrak detailed financial statements.

Diversification of the Revenue Base Has Not Eliminated Amtrak's Deficits

Amtrak's diversification of its revenue base has not had any appreciable impact on the corporate cash loss since 1995 (as calculated by the DOT Inspector General). In the chart below (which presents Year 2000 constant dollars), "Corporate Mitigating Measures" are the difference between the annual operating deficit for the "core" and the Corporate Cash Loss as calculated by the Inspector General and include such items as commuter profits, profits from reimbursable businesses, and commercial development activities.



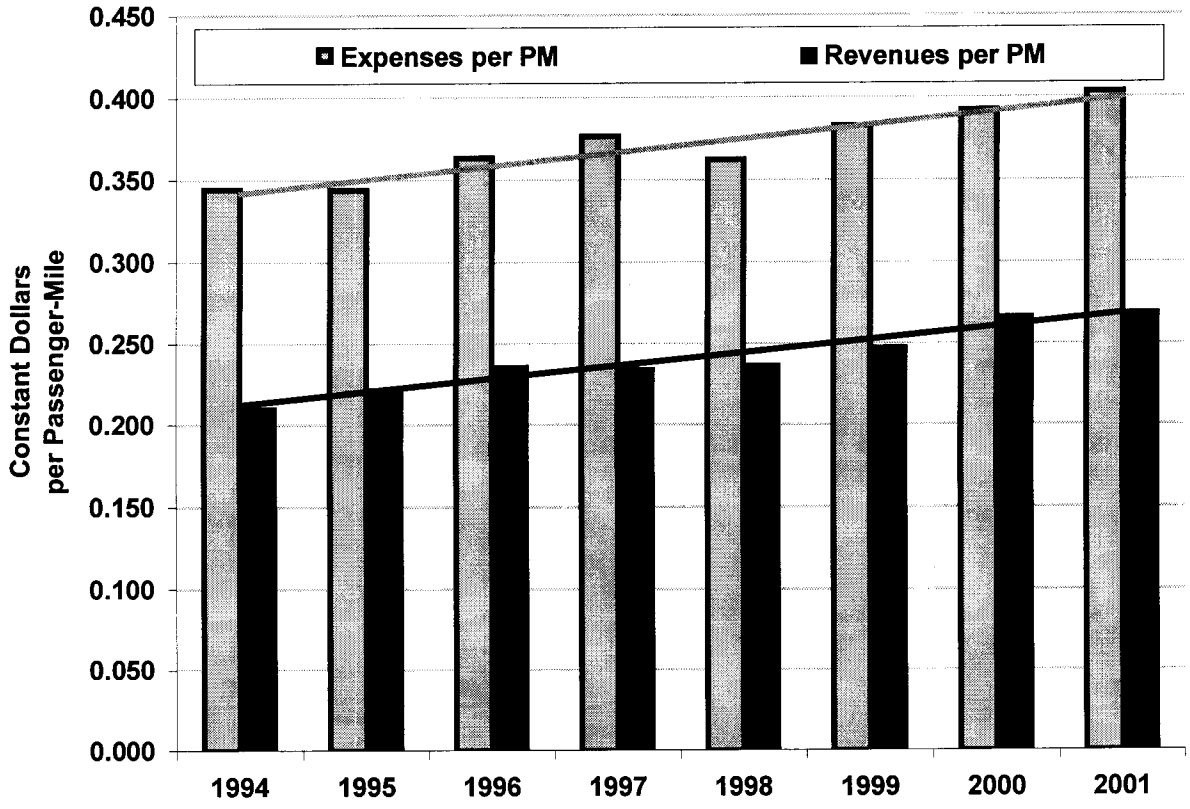
Source: Amtrak Annual Reports; Amtrak detailed financial statements; reports of the Office of Inspector General.

The foregoing facts lead to a simple but key conclusion: Amtrak's corporate performance relies on the marketability and cost-effectiveness of its primary business: passenger transportation. That Amtrak's marketability is weak – at least under normal circumstances – is evident from the previous discussion of its service quality.

Operating Efficiency Declines as Expenses Outpace Revenues

On a constant dollar basis, the cost to generate each passenger-mile on Amtrak has grown by about 17 percent since 1994 – or about 2_% per year – thus counterbalancing any benefit from increased revenues, as the chart clearly indicates.[d] Indeed, the trend lines for the expense and revenue increases are parallel rather than converging. Had expense increases been held to inflation from 1994 to the present, the system-wide deficit per passenger-mile would be only 7_ cents, almost half the 13_ cents that Amtrak presently generates; and the cash losses would likewise be about half of what they are today. Thus, despite commitments made when the last round of labor negotiations was concluded, Amtrak's productivity has declined in real terms since the mid-1990s.

Expenses and Revenues per Passenger Mile: 1994-2001



Source: Amtrak detailed financial statements; adjusted to constant 2000 dollars by GDP deflator.

Several factors, some of which are addressed above, correlate with this trend, including:

- Average trip lengths have decreased from 288 miles in 1991 to 235 miles in 2001 – a drop of one-fifth. This means that fixed per-trip costs, like reservations and ticketing, are spread over fewer miles. The result: higher unit costs.

[d] In the referenced chart, "revenues" are total core revenues less State subsidies and other governmental payments; and expenses are total core expenses, less depreciation but with interest expense included.

- In 2001, train-miles reached their highest level in corporate history, almost 36 million. Since 1996, train-miles have risen more than twice as fast as passenger-miles: 21% vs. 9%. This reflects the restoration of daily service on some routes, like the Texas Eagle, that had previously run only 3 or 4 days a week, and increased frequencies on the West Coast and the Northeast Corridor.

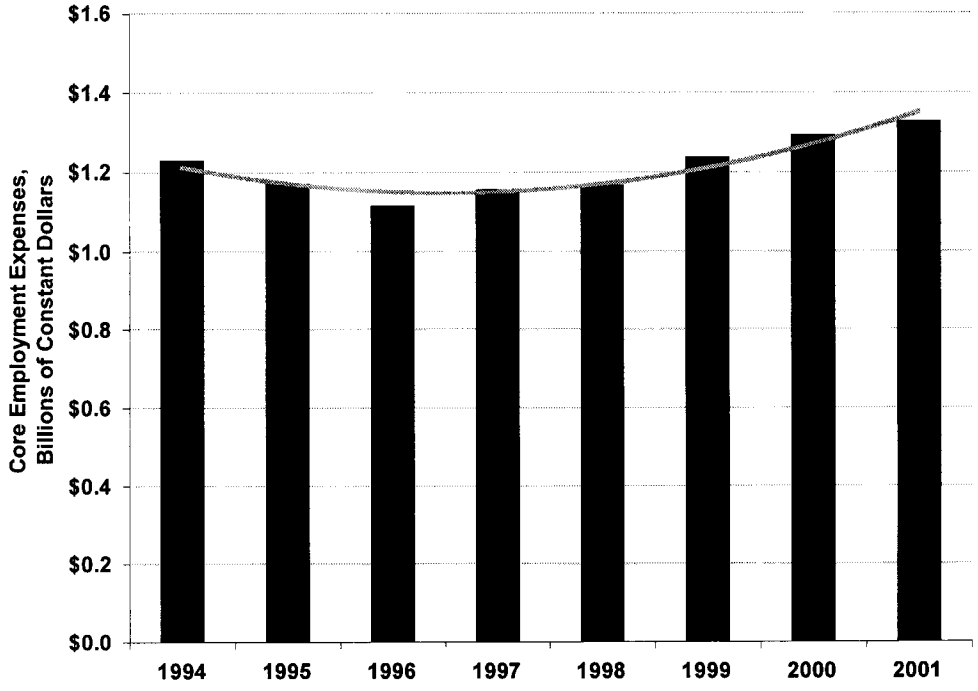
- With more train-miles and less traffic volume than in the past, Amtrak's average trainload of passengers has declined – by almost one-fifth, from 188 in 1989 to 155 today. In part, this reflects the growing importance of short-distance trains, which carry fewer people than overnight or transcontinental runs.

- Finally, since the mid-80s, Amtrak's system-wide load factor has also decreased—from over 50% to about 45%. This shows that the Corporation is having difficulty matching capacity with demand.

Employment Costs Continue to Grow

The most important factor in Amtrak's operating costs is wages, fringes and employee benefits. Employment costs account for almost three-fifths of Amtrak's expenses. This proportion has remained constant since the mid-1990s, an indicator that no substantive productivity gains have occurred during that time. In 2001, Amtrak's core employment expense amounted to over $1.3 billion, exclusive of the embedded employment cost in capital projects.

On a constant-dollar basis, core employment expenses are growing . . .

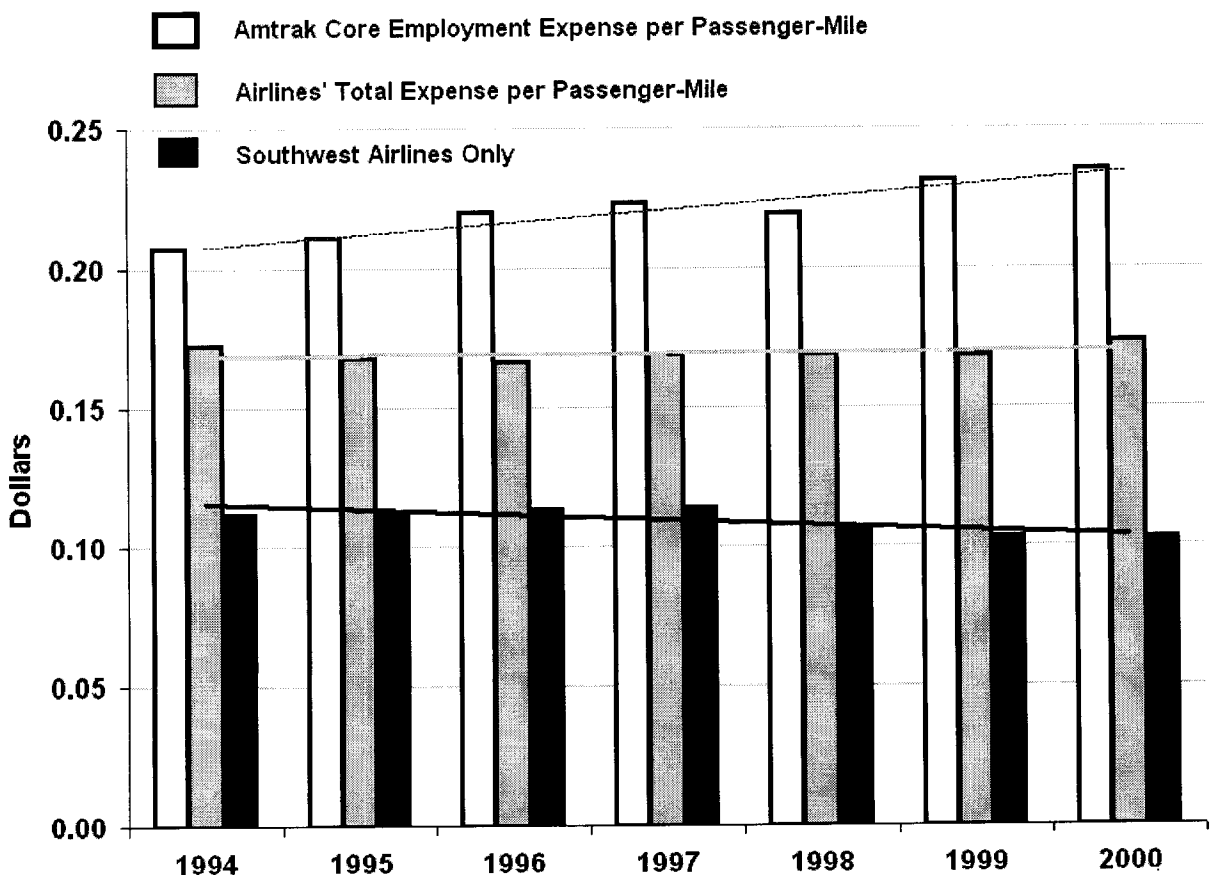


Source: Amtrak detailed financial statements.

Although annual core employment expenses are growing in the aggregate, they have remained fairly constant on a train-mile basis, at about $36-$37 per train-mile. This constancy also demonstrates that no major productivity advances, such as service redesigns or outsourcings of business functions, have occurred in recent years. Increasing train-miles at these constant rates have led to higher total costs.

Since each train has been carrying fewer passengers, core employment expenses have steadily increased on a passenger-mile basis since the mid-1990s, eroding any advantages Amtrak has obtained from higher fares and making it ever more difficult for Amtrak to compete with declining prices for air travel, at least before September 11. The trend for Amtrak does not compare favorably with the total operating expenses of U.S. airlines, and particularly with those of the most efficient carrier, Southwest Airlines. The airline industry has been able to keep its unit cost increases even with inflation, and Southwest has controlled its costs still further. These are publicly available numbers from the Air Transport Association, the Bureau of Transportation Statistics, and the FAA.

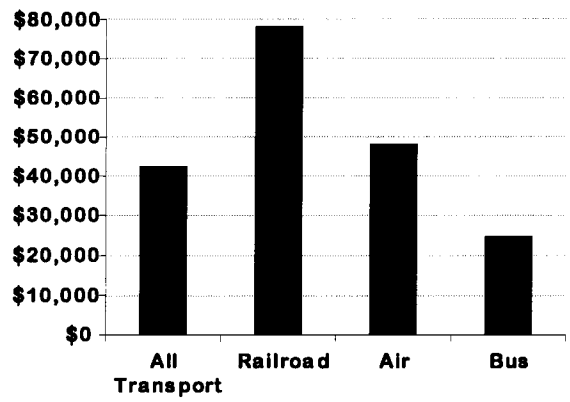
Comparison of Amtrak and Airline Unit Operating Expenses (2000 Constant Dollars)



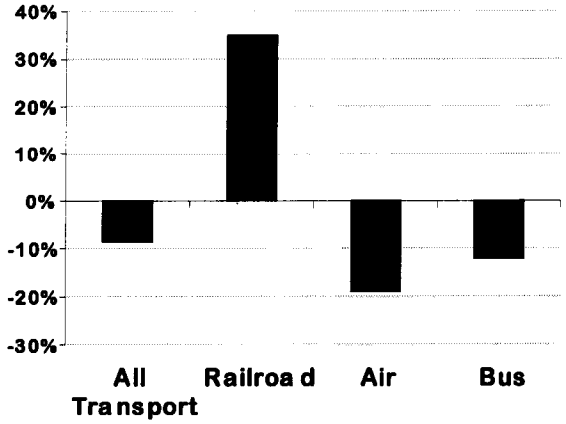
Sources: Amtrak detailed financial statements; Bureau of Transportation Statistics, particularly their "yellow" and "green" books; Air Transport Association; Federal Aviation Administration, "Statistical Handbook of Aviation."

Amtrak's unit employment costs exceed the total unit expense of other transportation providers for several reasons, including compensation levels, as well as the rate of growth in compensation, which has outpaced inflation. These intermodal comparisons are based on Eno Foundation data.

Average Yearly Compensation by Mode, 1999



Percent Real Change in Rail Compensation, 1980-99



Source: Eno Foundation historical statistics; the right-hand chart adjusts the numbers for inflation using the GDP deflator.

Amtrak has entire employment categories that airlines and bus companies do not deal with: maintenance-of-way employees and dispatchers, for example. While some of these costs are embedded in the funding mechanisms that support these other modes, air traffic controllers work for the FAA and highway maintainers work for State highway departments.

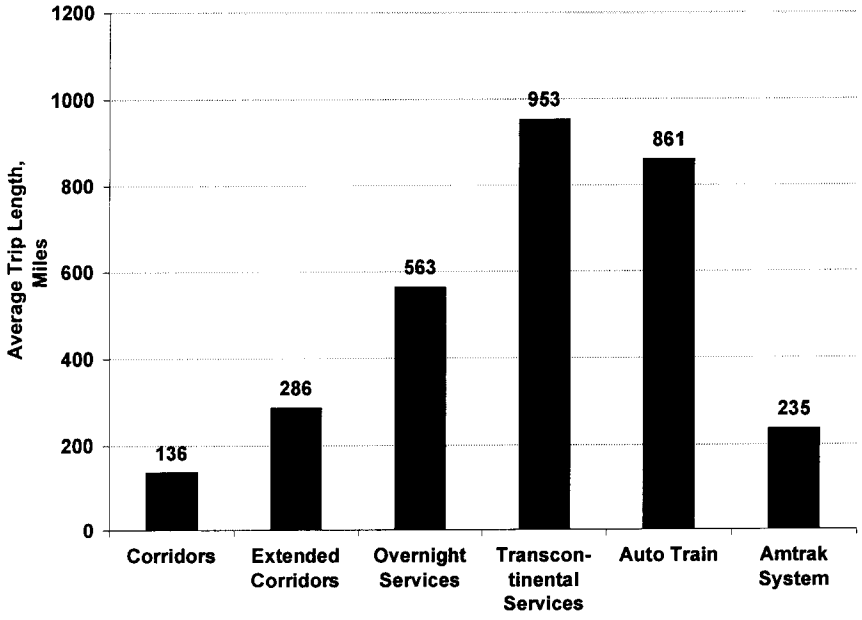
Finally, the Federal Government has had a longer-term involvement in railway labor and management issues, with the result that many provisions are especially applicable to the rail industry – for instance, Railroad Retirement and the Federal Employers' Liability Act – and may result in higher costs for all railroads.

The foregoing discussion is not intended as a comment upon Amtrak's workers, many of whom are as dedicated to their company and its mission as any worker in the country. Nor is it commentary as to the adequacy of the compensation of individual workers or to the quality of their work. It is an observation, however, that if public policy is to dictate that operating expenses must be brought into line with operating revenues, then employment costs as a percentage of revenue must be addressed.

Amtrak's Financial Performance Varies Significantly Among The Different Services it Provides

Amtrak provides five basic types of intercity passenger rail service. These are Corridor, Extended Corridor, Overnight, Transcontinental, and Special Services (i.e., Auto-Train). As shown below, these service types have average trip lengths that are clearly differentiated.

Average Trip Length by Service Type, 2001



Source: Amtrak route profitability system.

A listing of the various routes, categorized by service type, appears on the following page.

In addition to the average trip length, these services have other differentiating characteristics

- **Corridor** services are characterized by relatively frequent schedules with modest amenities, on routes in the 100–500 mile range. Depending on average speeds and service quality, these trains can serve both business- and personal-travel markets.

- **Extended Corridors** are daytime services on routes over 500 miles in length. These services, also with modest amenities, are few in number, have single daily frequencies, and often have very early departures and very late arrivals at major terminals, making their marketability highly dependent on on-time performance. Extended corridor services cater primarily to personal travel needs because of their relatively lengthy time requirements during daylight hours.

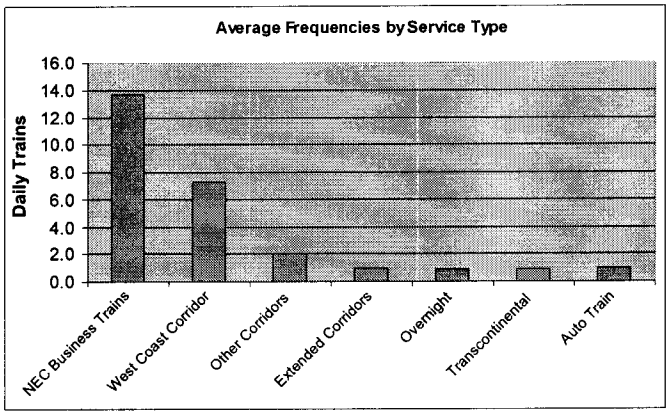
- **Overnight** trains take one night and portions of the adjoining days and are concentrated in two major, traditional traffic lanes: between Northeast Corridor points and Chicago (four daily round trips); and between Northeast Corridor points and Florida (three daily round trips). Other traffic lanes with single daily services include: Northeast Corridor-Atlanta-New Orleans; Chicago-New Orleans; and Chicago-Texas; as well as overnight runs along the Northeast Corridor and the West Coast. These services generally provide sleeping and full dining cars in response to passenger needs and expectations, and as an extension of past practices. Their primary market is evidently for personal travel; the size of any potential business market is unknown because of Amtrak's chronic on-time performance difficulties and schedules that have deteriorated, in many cases markedly, since the mid-1950s.

FRA Categorization of Intercity Passenger Train Routes, 2001

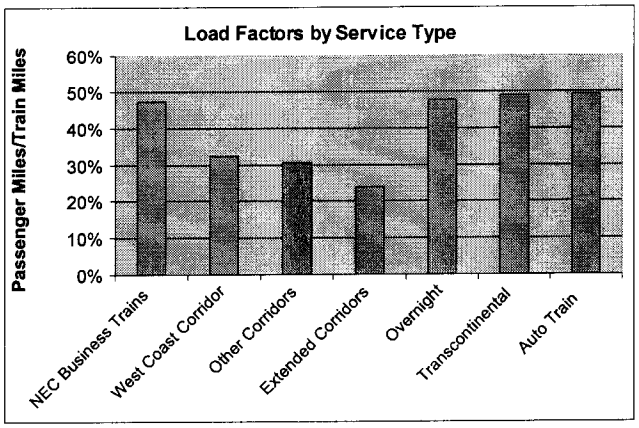
Corridor Services	Northeast Corridor Services		Metroliner and Acela Express
			Northeast Direct
		Clockers and Keystones (Harrisburg-Phila.-NYC)	New York-Philadelphia (Clocker)
			Keystones (Harrisburg-Philadelphia-New York)
	Empire Corridor Service		NYC-Albany-Buffalo (Empire Service)
			NYC-Albany-Vermont (Ethan Allan)
			NYC-Albany-Montreal (Adirondack)
			NYC-Buffalo-Toronto (Maple Leaf)
	Chicago Hub Network Service		Chicago-Milwaukee (Hiawathas)
			Chicago-Quincy
		Chicago-St. Louis-Kansas City	Chicago-St. Louis
			St. Louis-Kansas City
			Chicago-Carbondale
			Chicago-Indianapolis-Louisville
			Chicago-Detroit
			Chicago-Grand Rapids (Pere Marquette)
	West Coast Corridor Services		Pacific Northwest (Cascades)
			San Jose-Sacramento (Capitols)
			Bay Area-Bakersfield (San Joaquins)
			CA Coast-L.A.-San Diego (Pacific Surfliners)
	Other Corridors		Raleigh-Charlotte, NC (Piedmont)
			Fort Worth-OK City (Heartland Flyer)
Extended Corridor Services *[Daylight service routes over 500 miles and extending beyond a single corridor]*			Vermonter
			Pennsylvanian
			Carolinian
			International
Overnight Services	NEC Overnight Service		Twilight Shoreliner (Boston-Washington-Hampton Roads)
	Trunk Line Overnight Services (East Coast and Chicago)		Lake Shore Ltd (Via New York State)
			Three Rivers (Via Pennsylvania)
			Capitol Ltd. (Via Potomac Valley)
			Cardinal (Via West Virginia)
	Florida Overnight Services (NEC and Florida)		Silver Star (via Columbia SC)
			Silver Meteor (via Charleston SC)
			Silver Palm (via Charleston SC)
	Other North-South Overnight (East-Midwest and South)		Crescent (NEC-Atlanta-New Orleans)
			City of New Orleans (Chicago-New Orleans)
			Texas Eagle (Chicago-San Antonio)
	West Coast Overnight		Coast Starlight (Seattle-Bay Area-L.A.)
Transcontinental Services			Empire Builder (Chicago-Seattle/Portland)
			California Zephyr (Chicago-Denver-Oakland)
			Southwest Chief (Chicago-New Mexico-L.A.)
			Sunset Ltd (Florida-Texas-L.A.)
Special Services			Auto Train (NEC and Florida)

- **Transcontinental** trains require a trip of two or more nights and are comprised of trains providing service between Chicago (and in one case Florida) and the West Coast. As a result of the travel time involved, their prime market under normal circumstances is for personal, non-time-sensitive travel.

- **Special services** presently consist of Amtrak's Auto Train, which links the Northeast Corridor market (served at Lorton, Virginia, south of Washington, D.C) with the prime tourist attractions of Florida (accessed at Sanford, north of Orlando). It is geared toward extended personal trips or seasonal migrations, and allows customers to take their cars with them.



Source: Amtrak timetables.



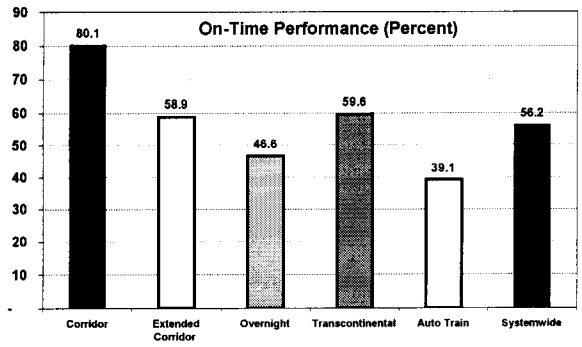
Source: Amtrak route profitability system.

Since the 1990s, the corridors have received the bulk of public attention and investment in passenger rail. However, the other service types still account for the majority of Amtrak's transportation production (measured in passenger-miles) and a very sizable share of revenues. Only in terms of annual passenger-trips do the corridors assume a preponderant role; because of repetitive travel over shorter distances, this statistic does not indicate the number of individuals making use of the various Amtrak services yearly.

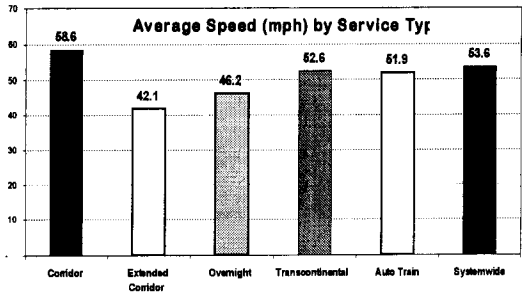
Amtrak's corridor routes offer higher-quality service to passengers, as measured by frequency, average speed, and on-time performance. However, service quality on overnight and transcontinental trains has deteriorated, and in some cases fares have been raised, contributing to a marked decline in ridership in the mid-1990s.

The long-distance trains average only one round-trip daily, speeds well below 55 miles per hour, on-time performance at or below 60 percent and delays sometimes measured in hours. As a result, these trains are at a significant competitive disadvantage versus other modes (in ordinary circumstances), particularly for business and time-sensitive personal travel. Amtrak's high fixed

cost base, low load factors, poor on-time performance, and challenging revenue management conditions adversely affect the financial performance of overnight and transcontinental trains.



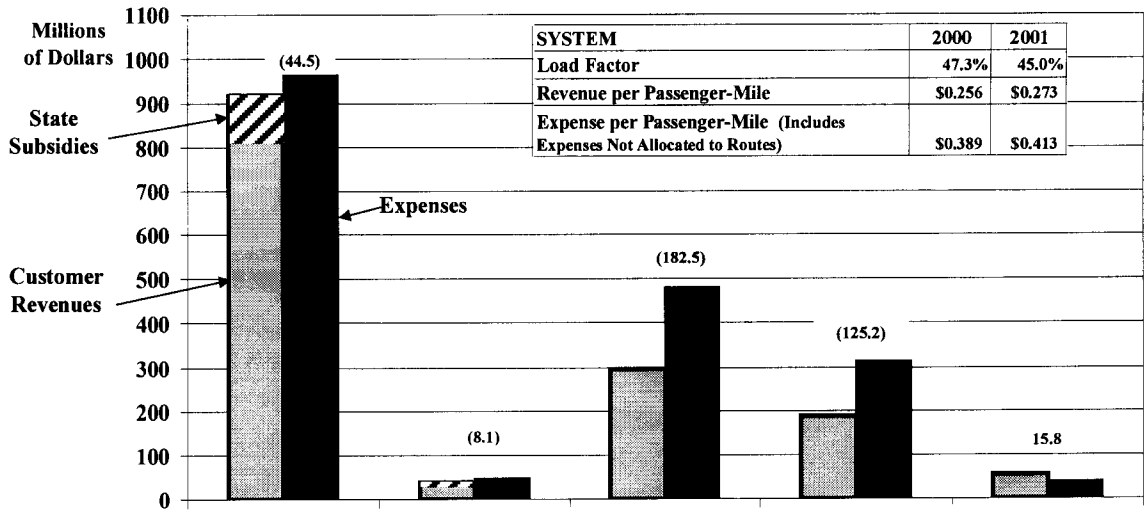
Source: Amtrak on-time data provided to FRA.



Source: Estimated from Amtrak timetables

FRA has analyzed all segments of Amtrak's network, and has estimated avoidable costs. *These are costs that would be saved if a particular route, or group of routes, were eliminated.* The data represent actual performance in fiscal year 2001 (full year–unaudited). Payments to Amtrak from State governments (which are negotiated each year) are shown separately from ticket revenue.

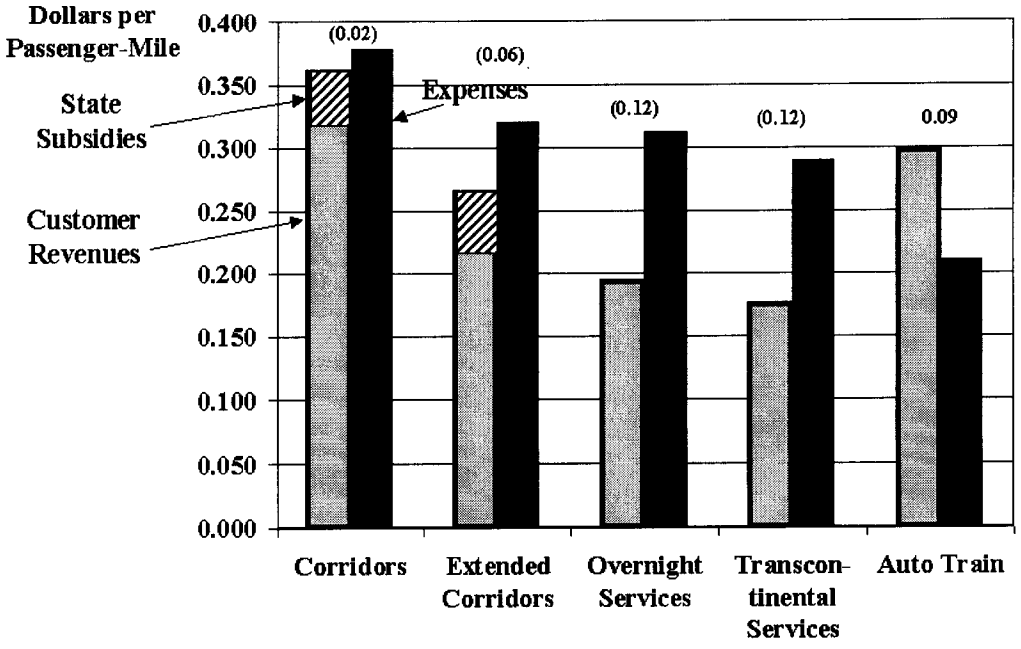
FY 2001 Full Year (Unaudited)



# of Routes	22	4	13	4	1
Passenger-Trips, mil.	18.8	0.5	2.7	1.1	0.2
Train-Miles, mil.	18.2	1.4	9.5	6.2	0.6
Passenger-Miles, mil.	2550.9	144.9	1532.4	1081.5	184.2

The chart above illustrates that a simplistic solution such as eliminating routes cannot restore the Corporation's financial viability. The long-distance service cuts proposed by Amtrak may ultimately save Amtrak on the order of $200 million (depending on the application of labor protective conditions in its contracts) and cuts of all overnight and transcontinental service may save as much as $300 million per year. However, absent major structural changes to the revenue/expense relationship, Amtrak will still not achieve fiscal health. The leading causes of Amtrak's weakened financial condition are crosscutting cost drivers – those costs that impact every train on every route. Cutting certain under-performing routes does not address this structural weakness. The pervasiveness of these crosscutting cost drivers, which affect all service categories—even the corridors, despite higher revenue yields and State subsidies—becomes apparent in the following chart:

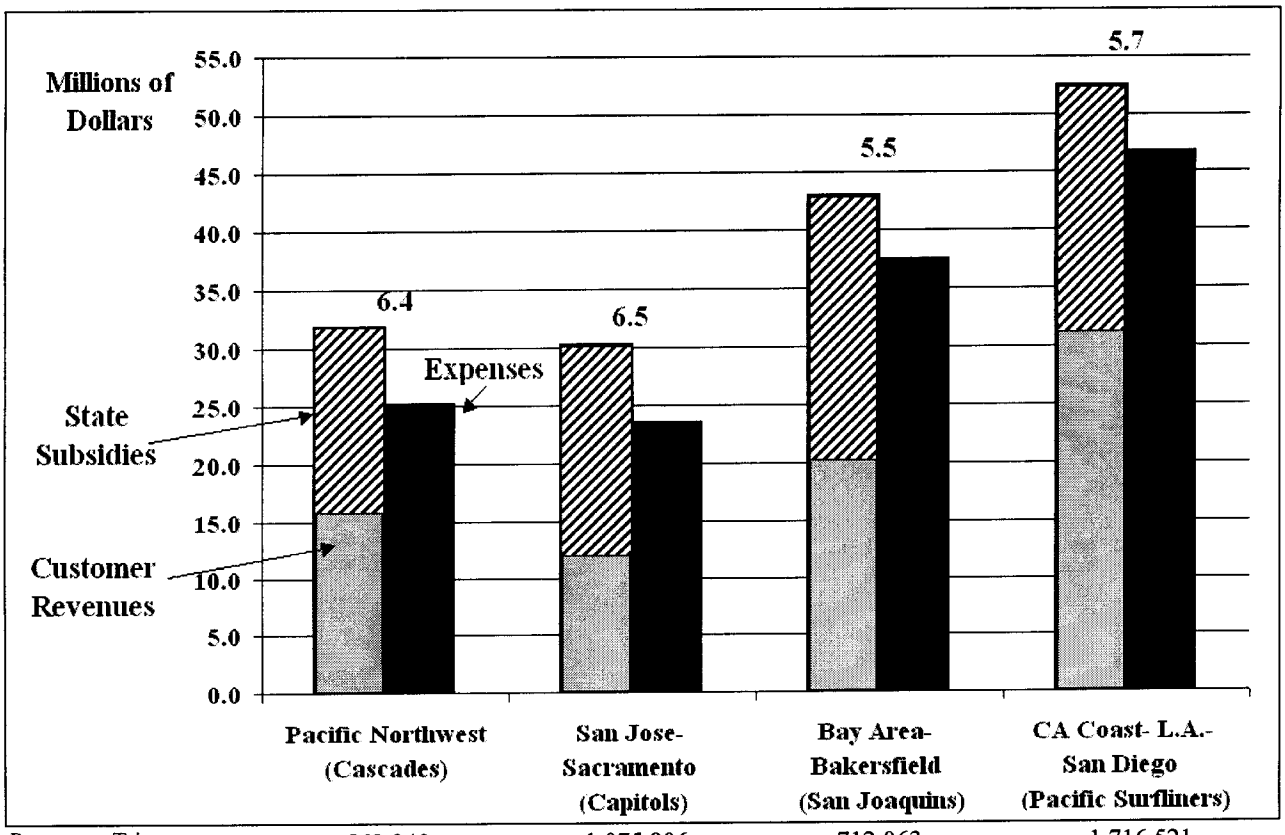
Per Passenger-Mile Revenues and Expenses by Service Category



States Are Playing An Increasingly Important Role in Supporting Intercity Rail Passenger Service

Amtrak forecasts State payments in FY 2002 of $133 million, an amount equivalent to nearly 10% of its passenger-related revenues. Validating the importance of State payments to Amtrak today is the chart below, which reflects steadily, increasing demand for intercity passenger rail on the West Coast. The routes depicted here run in California, Oregon, and Washington State. Including State payments, revenues on each of these routes exceed avoidable expenses.[e]

[e] Data for Fiscal Year 2001. The expenses shown are those which the FRA staff regards as "avoidable" on an individual route basis, and do not include an allocation of costs common to more than one route, or corporate overheads. These estimates are completely independent of, and not comparable with, the terms of any State contracts with Amtrak for reimbursement.

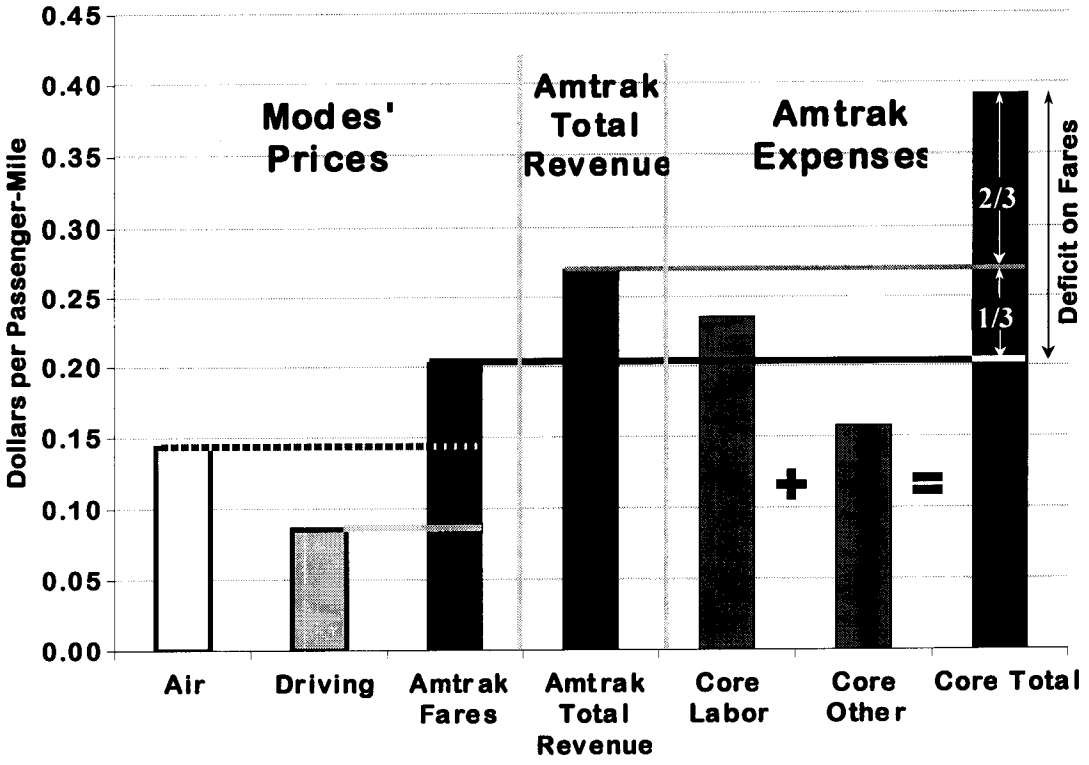


Passenger-Trips	562,340	1,075,906	712,063	1,716,521
Load Factor	0.42	0.30	0.33	0.26
Customer Revenues plus State Subsidies per Passenger-Mile	$0.38	$0.42	$0.39	$0.33
Avoidable Expenses per Passenger-Mile	$0.30	$0.33	$0.34	$0.29

Amtrak's Competitive Posture Shapes Its Fundamental Economics

Given the measurable characteristics of Amtrak's product, one could conclude that airfares – now a third below those of Amtrak – or perceived driving costs – now less than half Amtrak's fares – would constitute the ceiling for Amtrak's fares. Although rail travel attracts business that cannot be totally explained on quantitative grounds, it is difficult to see how Amtrak can significantly raise its overall prices without eroding its traffic base, diminishing its utility to the Nation as a transportation provider, and even reducing its total revenues.

Thus Amtrak is in a vise: It cannot raise its fares across the board because of competitive pressures from other modes, made worse by Amtrak's service quality levels. And historically, it has not only been unable to lower its unit costs, but in recent years has actually seen them rise well above inflation. Therefore, Amtrak's economic stance in relation to other modes is overshadowed by its cost structure.



The discussion above relates to Amtrak's core revenues, i.e. revenues from carrying passengers and mail and express. Amtrak does have other revenue sources, such as facility rentals and commuter management fees. Yet, when these other sources enter into the equation, they propel Amtrak only one-third of the way toward a break-even operation.

Thus the basic economics of Amtrak point to the passenger deficit with its underlying, disproportionate unit costs as the prime target for improvement. Amtrak's basic economic problems are compounded by the debt load the corporation bears. At the end of 2001, Amtrak had long-term debt and lease obligations on the order of $3_ billion; the company's debt service (principal and interest) is expected to amount to some $_ billion in 2002.

With three decades of ballooning expenses, a revenue base that can never expand fast enough to keep up with them, substandard service in most parts of the country that constrains the fare structure, and a traffic level that has actually declined since the early 90s, we must regard the current service provision system as unproductive and unsustainable. Quite simply, it needs to be changed.

Now Is the Time for a Cogent National Policy for Intercity Passenger Rail

For the last 30 years, Administrations and Congresses have addressed intercity rail passenger service by minor adjustments to authorizing statutes and the infusion of funds only sufficient to

keep Amtrak and its current route structure barely solvent. The discussion above provides strong support that we take a different path this year.

Last year and again a few weeks ago, Amtrak's President, George Warrington talked of two conflicting visions of Amtrak – as a provider of a public service at the direction of the Federal Government and as a commercially viable corporation. Mr. Warrington said that these visions are in such fundamental conflict that Amtrak cannot perform either of them well. He has called on the Administration and the Congress to provide clear direction as to what the national interest is in passenger rail service and adequate resources to cover those aspects of the national interest that are not commercially viable.

The Department of Transportation agrees that now is the time to develop a new, clear national policy for intercity passenger rail. The crisis in intercity passenger rail has been decades in the making and will not lend itself to simple solutions. At the present time, the Department is listening to the many stakeholders in intercity rail passenger service to identify their concerns, their needs, and their basic principles so that we can develop the outline of a new national intercity rail passenger policy that can have the broadest possible base of support. Secretary Mineta and I look forward to working with the Congress and others with an interest in passenger service in this difficult but important task.